Distr.
GENERAL

IDB.8/18
11 June 1991

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Industrial Development Board

Eighth session
Vienna, 1-5 July 1991
Item 6 of the provisional agenda

INDUSTRIAL INVESTMENT PROMOTION

Implementation of actions called for in decision IDB.6/Dec.15

Progress report by the Director-General

Summary

Reports on action requested in Board decision IDB.6/Dec.15, including UNIDO response in promoting the flow of investment to developing countries, fostering regional investment promotion and strengthening coordination with relevant organizations concerned with investment promotion.

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Introduction

1. At its sixth session, the Industrial Development Board adopted resolution IDB.6/Dec.15 in which the Director-General was requested to continue to promote the flow of investment to developing countries, encouraging the establishment of institutions devoted to this purpose, subject to informing the Board beforehand and the strengthening of existing institutions through the Industrial Investment Division, in accordance with General Conference resolution GC.3/Res.19, paragraph 2 (a) and (f). Other actions requested of the Director-General in that decision included: the continuation of work on and submission of the study referred to in Conference resolution GC.3/Res.19 on the possibilities and different modalities of fostering regional investment promotion activities; the increase in the participation of representatives of developing countries in the delegates programmes of the Investment Promotion Service (IPS) offices; and the strengthening of coordination with the United Nations regional commissions, regional development banks and other organizations concerned with promoting investment at regional and international level. The Director-General was also invited to report to the Board at its eighth session on the implementation of the actions called for in Board decision IDB.6/Dec.15: the present report is submitted in compliance with that request.

I. PROMOTING THE FLOW OF INVESTMENT TO DEVELOPING COUNTRIES

2. The UNIDO industrial investment programme aims at mobilizing not only foreign financing but also other resources of a technical or managerial nature that are required for the implementation of investment projects, including joint financing for completing pre-investment studies. The activities of UNIDO consist of designing and implementing integrated technical cooperation industrial investment programmes that are made up of several components. In the design of such integrated programmes every effort is made to tailor the component activities of each programme to the specific needs of the country concerned for foreign investment. The programmes thus designed are mostly for projects of a small to medium size and generated for national private entrepreneurs.

V.91 25404 0542E

Distr.: 14 June 1991

Investment promotion projects undertaken at the national institution level usually serve to demonstrate the type of practical-level activities that are required in order to ensure the implementation of investment projects. The enhancement of a national investment climate is an important and inherent objective of UNIDO's investment activities. To achieve a favourable investment climate the programmes may include the establishment or strengthening of national institutions charged with the mobilization of foreign investment resources, the revision of investment encouragement legislation, the preparation of investors' guides and other promotional documentation, the identification, formulation, screening and promotion of specific investment projects, the organization of country presentation tours, the holding of investment forums and participation in the investment resources mobilization orientation programme at the UNIDO IPS offices for delegates from developing countries (see paras. 18 to 21 below).

3. The additional staff resources allocated to the UNIDO investment programme in the budgets for the 1990-1991 biennium and a revised organizational structure that now provides a regional focus in the Industrial Investment Division (cf. Director-General's Bulletin UNIDO/DG/B/126 of 2 April 1990) have contributed to an increase in the dollar value of the industrial investment technical cooperation programmes implemented in developing countries - from $5.5 million in 1989 to $8.4 million in 1990 (cf. Annual Reports of UNIDO, 1989 (IDB.6/10) and 1990 (IDB.8/10), chapter III and statistical annex, table 5). This rate of increase is expected to be maintained and even augmented with the implementation of the recommendations emanating from the evaluation of the industrial investment activities of UNIDO (see para. 24 below).

4. In addition to the dollar value criteria, the success of the industrial investment programme in achieving its objectives can also be measured in terms of investment projects whose promotion is successfully concluded.* The number of investment projects concluded increased from 143 in 1989 to 170 in 1990 and the total monetary investment involved in these projects rose from $556 million in 1989 to $699 million in 1990. However, these figures represent only those projects on which UNIDO was able to obtain information; in fact, owing to the relatively long period of time between the promotion of a project by UNIDO and the successful conclusion of its promotion, UNIDO is not always informed of all projects actually concluded. The length of this time period is illustrated by the recently completed project promoted by UNIDO in Madagascar. A Malagasy company dealing with the production of duck livers, and in business since 1980, received UNIDO assistance in various forms: identification and formulation of the investment project and its subsequent promotion in 1986, discussion of the project with potential foreign partners at the regional investment promotion forum organized by UNIDO in Mauritius in 1987, and the preparation of a partnership agreement in 1989. After the required Economic Community approval was received for the export of duck livers to Europe, the partnership agreement prepared by UNIDO was signed between the Malagasy company and a French company. Delivery of duck livers to Europe commenced late in 1990 and in early 1991 the success of the Malagasy company culminated with the receipt, in Europe, of an international award for its duck meat products. Thus, a four-year period was spanned from the initial assistance to a successfully concluded project.

5. At all stages of the design, development and implementation of its industrial investment technical cooperation programmes UNIDO maintains close contacts with the United Nations regional economic commissions, development banks and other organizations concerned with promoting or financing investment at national, regional and international levels. Some of these contacts are described in the Annual Report of UNIDO, 1990 (IDB.8/10, chap. III, paras. 39-44).

6. The recently completed report on the evaluation of the industrial investment activities of UNIDO (ODG.12(SPEC)) reveals that one of UNIDO's strongest potential comparative advantages in support of its enterprise-oriented activities is its world-wide network of contacts. This network, which includes but is not limited to IPSs, provides Governments with access to valuable investment information. Currently, UNIDO operates nine IPSs, located in Cologne, Milan, Paris, Seoul, Tokyo, Vienna, Warsaw, Washington and Zurich. Discussions are under way with the Governments of Czechoslovakia, Greece, Iran (Islamic Republic of), Portugal, Turkey and the United Kingdom of Great Britain and Northern Ireland with a view to establishing IPS offices in those countries. The Warsaw and Seoul IPS offices are located in countries which, while themselves IPF recipients, nevertheless devote considerable resources to the promotion of outward investment to other developing countries.

7. With regard to the establishment/strengthening of national capabilities of individuals and institutions, examples of UNIDO assistance extended in Africa include the Uganda Manufacturers Association and the Uganda National Chamber of Commerce and Industry, the Ghana Investment Centre, the Kenya Ministry of Industry and Investment Promotion Centre and the Zambian Confederation of Chambers of Commerce and Industry. In the Asia and Pacific region assistance was extended to Sri Lanka and Viet Nam; in the Latin America and the Caribbean region to Bolivia, Ecuador and Mexico; and in the Arab countries, Europe and the Mediterranean region to Czechoslovakia, Poland and Saudi Arabia (cf. Annual Report of UNIDO, 1990 (IDB.8/10, chap. III)).

II. REGIONAL INVESTMENT PROMOTION ACTIVITIES

UNIDO experience in fostering regional investment promotion activities

8. Technical cooperation industrial investment programmes and specifically investment forums provide the opportunity not only for individual national investors to seek investment resources from industrial countries in a North-South direction, but also provide the opportunity for national investors from different countries in one

* An investment project whose promotion is considered successfully concluded occurs when the developing country investor and a prospective foreign partner have reached agreement in principle to cooperate in implementing a given investment project.

region to interact among themselves and identify business opportunities on a regional basis. Many of the UNIDO industrial investment technical cooperation programmes are organized for regions or groups of countries, rather than for individual countries, thus giving rise to enhanced possibilities for intra-regional investment and trade. For example, in Africa the investment forum for the member States of the Preferential Trade Area for Southern and African States (PTA) was attended by 271 national investors from the 16 PTA countries and the forum for members of the Economic Commission of Western Asian States by 268 national investors from the 16 countries of the subregion. African investors have concluded a number of industrial cooperation arrangements among themselves, but it is not possible to report on specific intra-African agreements in this field owing to lack of sufficient information.

9. UNIDO experience in regional investment promotion indicates that although many developing countries have realized the importance of regional investment cooperation and have sought to encourage it through various means, progress has been relatively slow. The traditional North-South direction of investment cooperation is deep-rooted and well established. Changing this direction requires confidence building measures which in turn require time. Subjective attitudes have to be changed concerning the quality and reliability of goods and services available in neighbouring developing countries. The recent arrival of the Multilateral Investment Guarantee Agency (MIGA) on the investment scene is expected to contribute to confidence building through guarantees against non-commercial risks. The involvement of national investors from different countries of a region in the technical cooperation investment programmes of UNIDO will also contribute to opening new South-South directions of investment resource flows. In this regard UNIDO is also examining modalities for promoting trilateral investment cooperation between joint ventures involving a North industrialist and a South industrialist which are well established and successfully operating and a third industrialist from another South country.

10. The reorganization of the work of the Industrial Investment Division to reflect a regional thrust (cf. para. 3 above) resulted in increasing not only the dollar value of industrial investment technical cooperation programmes implemented but also the number of investment projects promoted within the regions. From 1989 to 1990, the dollar value of technical cooperation programmes increased in the Latin American and Caribbean region from $797,150 to $969,307 and in the Asia and Pacific region from $437,400 to $1,202,000. Paragraphs 12 to 19 below provide a closer look at the progress of industrial investment promotion as seen from a regional perspective.

11. The preparation of the study requested in paragraph 3 of resolution GC.3/Res.19 (and reiterated in Board decision IDB.6/15) has been limited to research on the African region only, owing to staff and financial resource constraints. Inquiries continued with the United Nations regional commissions, the regional development banks and other national regional and international institutions concerned with investment promotion on a regional scale, as mentioned in paragraph 4 of IDB.6/9. The replies received have been reported on in the following paragraphs under the different regions. Until sufficient resources become available to UNIDO for preparing the study, UNIDO will:

(a) Systematically expand the activities initiated during the current biennium to ensure that UNIDO is fully informed of developments in regional investment promotion in all developing regions and will endeavour to ensure that experience gained is disseminated to other developing regions;

(b) Endeavour to mobilize existing resources for undertaking the studies described in document IDB.6/9 (para. 4);

(c) Accord priority, in its ongoing and future activities, to the design of technical cooperation programmes to foster regional investment promotion, including trilateral cooperation, and to mobilize financial resources for the implementation of such programmes.

Africa

12. In 1989, the Co-ordination Unit for the Programme for the Industrial Development Decade for Africa (IDDA) prepared a study (ODG.10(SPEC)) on the identification, formulation, implementation and monitoring of multinational African industrial enterprises (regional projects) which formed the basis for a meeting of high level experts on the same subject, held in Vienna, Austria, in September 1989. At that meeting the opportunities and constraints, strengths and weaknesses of African countries and the modalities for the promotion of multinational investment projects were highlighted. Subregional meetings held from 1989 to 1991 on the promotion of intra-African industrial cooperation within the framework of the programme for IDDA also covered the subject area in detail for the subregions of Eastern and Southern Africa, Central Africa, the Preferential Trade Area of Eastern and Southern African States as well as for North Africa. These meetings again stressed the importance of modalities for the enhancement of regional investments and resulted in revised integrated industrial promotion programmes for the Second IDDA, including lists of project profiles identified for formulation or promotion and other projects already under implementation. These projects may be national ones, or "community" projects, involving two or more countries. It was also recognized at the meetings that if such projects were to stand a good chance of success, paramount importance must be placed on creating an economic environment conducive to a healthy investment climate through adequate policies, support industrial infrastructure and services, and strengthening of local capabilities and capacities.

13. In the past, various attempts had been made to establish regional enterprises in Africa. It appears these failed owing to deficient industrial policies, local capabilities and investment environment. In the view of African countries that participated in the subregional meetings of IDDA, the establishment of regional enterprises is no longer a matter of choice, but rather of necessity; those countries have clearly demonstrated their support for such enterprises. In drawing up programmes and identifying industrial investment projects for promotion, more importance therefore is being laid on the preparation of realistic pre-investment studies for investment projects, and to ensure their success, urgency is given to: supporting technical cooperation projects relating to human

resource development, acquisition and adaptation of technology; project formulation, appraisal and monitoring; setting up and strengthening of legal frameworks and institutional infrastructure; quality control and standardization; and research and development.

Asia and the Pacific

14. The UNIDO contacts described in document IDB.6/9 (para. 4), continued in 1990 with national, regional and international institutions dealing with regional investment promotion. As regards the Asia and Pacific region, the Asian Development Bank (AsDB) informed UNIDO that its Private Sector Department has not undertaken nor does it intend to undertake studies or activities related to the fostering of regional investment promotion activities. While that Bank undertakes surveys to identify possible private sector projects in individual developing member countries, there is no conscious effort made to identify projects that would attract investment resources from another country in the same region and to promote these projects within the region. The possibilities for providing co-financing and procurement of equipment and technical and managerial know-how for approved projects are open to all member countries of AsDB whether from within or outside the region. The Bank assumes that potential suppliers of these resources from within the region may have an advantage due to their proximity to the project, but AsDB nevertheless treats all potential suppliers equally in seeking the best arrangements for its borrowers. The Under-Secretary and Chairman of the Committee on Industry, Minerals and Energy (COIME) of the Association of South-East Asian Nations (ASEAN) advised UNIDO that COIME has developed industrial programmes such as the ASEAN Industrial Joint Venture Scheme (AIJV) and the Brand-to-Brand Complementation Scheme in the Automotive Industry, which aim at increasing regional cooperation and generating joint venture undertakings with ASEAN and non-ASEAN partners. In its effort to promote these schemes, ASEAN-COIME implemented with UNIDO a technical cooperation project for identifying and promoting projects for the AIJV scheme through the preparation of opportunity studies. At the last tripartite meeting, held at Manila in August 1990, COIME submitted to UNIDO two technical cooperation project concepts geared towards the improvement of the promotional activities for AIJV projects in ASEAN countries as well as outside the ASEAN region. However, owing to financial constraints, UNIDO was not in a position to approve the project concepts.

15. As a result of the integrated industrial investment technical cooperation programme implemented in Bangladesh (an Investment Forum was held in 1987), four investment projects with a total investment of about $8.1 million were concluded with the participation of investors from the region (two from China, one from Hong Kong, and one from India). The Seoul IPS concluded a China/Republic of Korea joint venture for wooden products with a value of $0.39 million. Another success was the Investment Forum for Viet Nam, held at Ho Chi Minh City in March 1991. From a total of 613 foreign participants, 257 were from the region, namely from Hong Kong, Indonesia, Japan, Malaysia, Republic of Korea, Singapore and Thailand. Project-related discussions were fruitful and some 20 letters of intent were signed, dealing especially with the agro-industry and light industry sectors.

Latin America and the Caribbean

16. As regards the Latin American region, UNIDO was informed that most of the regional investment promotion activities of the Inter-American Development Bank (IaDB) are components of technical cooperation projects for providing support to institutions engaged in promoting trade with and investment in the region. These institutions include: the Brazilian Ministry of Foreign Affairs, the Andean Development Corporation, the Uruguayan Chamber of Industry and Commission for Investment Promotion, the Costa Rican Coalition for Investment Initiatives, the Latin American Association of Development Financing Institutions (ALIDE), the Latin American Industrialists Association, and the Latin American Banking Federation.

17. As early as 1982, the report on Economic and Social Progress in Latin America included a chapter on technology exports within the region. The Institute for Latin American Integration (INTAL), an administrative unit of the Inter-American Development Bank undertook in recent years studies on technology transfer and managerial cooperation. The Economic Commission for Latin America and the Caribbean has also provided UNIDO with a list of ten studies on topics related to regional investment promotion.

18. In 1990, implementation began of an industrial investment programme for the Andean subregion with the participation of UNIDO, the United Nations Development Programme and the Andean Development Corporation (ADC). This two-year programme, which is aimed at identifying, formulating and promoting investment projects, including multinational projects from within the Andean Group, provides support, training and institution-building. Moreover, ADC provides guarantees for selected projects when required. This programme is innovative in that it combines the strengthening of an already existing regional organization, the fostering of intra-regional investment and the involvement of an organization that is simultaneously a financial and a development institution. In October 1991, at a meeting scheduled to be held at Caracas, Venezuela, entrepreneurs from the five Andean Group countries will be matched with foreign entrepreneurs. Concerning the Central America region, a programme has been drafted that includes the participation of the Central American Bank for Economic Integration, and discussions have begun for securing the financing for the programme. In October 1989, a UNIDO/ALIDE mission to Argentina, Brazil and Uruguay took note of the requests made by development financing institutions in those countries. In view of budgetary constraints, however, this programme will start on a modest scale by combining the resources of the two organizations concerned in an effort to identify and formulate selected projects originating from those financing institutions.

Arab States

19. With regard to the Arab region, the Inter-Arab Investment Guarantee Corporation (IAIGC) has informed UNIDO that it implements one of its important objectives, namely the promotion of investment within its member States, in cooperation with investment agencies in the Arab countries and that the flow of investments could be accelerated if national investment agencies could concentrate on improving promotion activities - i.e. identifying investment

opportunities, formulating marketing plans and executing such plans. IAIGC also informed UNIDO of its plans to convene a seminar, to which UNIDO will be invited, on the scope and techniques applied by different investment agencies in the Arab countries to attract Arab and foreign investment to those countries. The seminar will provide the opportunity to exchange experiences among Arab member States as well as between them and other foreign and international institutions in the field of investment promotion. The Economic and Social Commission for Western Asia (ESCWA) has implemented a number of activities aimed at fostering regional investment promotion. These activities cover capital goods and heavy engineering industries (telephone exchanges and instruments, electric power turbines and generators, transformers, telephone cables, power cables, equipment for chemical industries, integrated facilities for automation), cement production equipment and spare-parts, agro-food industries, high speed diesel engines and components, and engineering infrastructure industries (intermediates, forging, castings). Some of these ESCWA activities are jointly financed with: the Arab Industrial Development and Mining Organization, Arab Industrial Investment Company, Arab Fund for Economic and Social Development, Islamic Development Bank (IsDB), General Secretariat of Gulf Co-operation Council (GCC) and UNDP. In addition, ESCWA and UNIDO cooperated in the implementation of a programme, including the holding of an investment forum (Algiers, 7-8 May 1990), for the electronics industries, at which 33 investment projects were identified and promoted by UNIDO.

III. PARTICIPATION IN THE DELEGATES PROGRAMMES OF THE INVESTMENT PROMOTION SERVICE (IPS) OFFICES

20. The concept of the present "delegates' programme" operating within the various IPS offices, had its initial exposure in the New York IPS in 1978 (cf. ID/B/220, chap. III, para. 38). That year, 10 participants benefited for the first time in a programme that has three main goals: to improve their investment promotion skills; to enable them to promote priority investment promotion projects in their home countries; and to organize visits to their home countries by potential investors. In 1990, 32 participants were involved in the programme, and the demand for the programme is readily apparent from the steady increase in the number of potential candidates. However, the satisfaction of this demand is restricted by the limited space available for this purpose in the respective IPS offices.

21. The delegates' programme has proved a highly effective mechanism for promoting investment in developing countries (see section 2.3.4 of document ODG.12(SPEC)). The programme is especially effective when the placement of a delegate in an IPS occurs within the framework of a UNIDO-implemented industrial investment technical cooperation programme in the home country of the delegate. The delegate then can count on the support of a multidisciplinary team of UNIDO and national experts that includes:

(a) The speedy provision of reliable information which enhances the image of the country as an attractive place to invest;

(b) The effective and efficient reception, by the staff and experts attached to an ongoing programme of foreign entrepreneurs visiting the country;

(c) The increased willingness of foreign partners to respond to the delegate since he is in his home country and supported by a team that is often able to mobilize additional resources for the delegate and to provide assistance in concluding business cooperation agreements.

22. An analysis of the participation on a regional basis shows, for example, that four delegates from the African region participated in the programme in 1989 and three in 1990. During 1990 requests from delegates from countries such as Ethiopia, Ghana and Kenya could not be accommodated. From the Asia and Pacific region, 25 delegates from 10 countries participated in 1989 and the number remained at that level in 1990: 26 delegates from 11 countries. While in 1989 UNIDO was able to meet all requests from developing countries emanating from the Asia and Pacific region, in 1990 the demand exceeded the available places, and requests from a number of countries (e.g. Bangladesh, the Democratic People's Republic of Korea and India) could not be met. This situation is expected to continue throughout the 1991-1992 biennium. From the Latin American and Caribbean region, two delegates participated in the programme in 1989 and four in 1990. Several requests were received for the placement of delegates from Barbados, Bolivia, Chile, Ecuador, Guyana, Trinidad and Tobago, and several Central American countries, but these could not be accommodated because of lack of space at the IPS offices. From the Arab countries, Europe and the Mediterranean region two delegates (from Bahrain and Morocco) participated in the programme in 1989 and one (from Poland) in 1990. During the same year a number of requests were received from Algeria and Romania that could not be accommodated due to lack of financial resources and non-availability of space at the IPS offices.

23. UNIDO is exerting every effort to convince IPS host countries to expand the number of delegates that the IPS offices can accommodate. On the assumption that in future more space will become available in the IPS offices and that the number of IPS offices will also increase, a growth in the delegates programme has been planned for the 1992-1993 biennium. During that period, 85 participants from developing countries are scheduled to receive on-the-job orientation in the IPS offices, with a regional break-down as follows: Africa - 20 delegates; Asia and the Pacific - 40 delegates; Latin America and the Caribbean - 15 delegates; Arab States, Europe and the Mediterranean - 10 delegates.

IV. EVALUATION

24. The Board in its decision (IDB.5/Dec.12) had requested the Director-General to undertake in-depth evaluations of the important activities of the Organization, giving priority, among others, to industrial investment activities, namely (a) investment project identification and preparation and (b) investment projects promotion including the Investment Promotion Services. The in-depth evaluation of the industrial development activities of UNIDO took place from January to December 1990. The full report of the evaluation (ODG.12(SPEC.)) was circulated to the Permanent Missions to UNIDO on 23 April 1991. A summary of that report will also be made available to delegations at the eighth session of the Board as a conference room paper.

V. ACTION REQUIRED OF THE BOARD

25. The Board may wish to take note of the present report and provide further guidance.